



Final Minutes
Endowment Fund Investment Board Regular Meeting
May 10, 2005

A regularly scheduled meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on May 10, 2005. Chairman M. Dean Buffington called the meeting to order at 10:46 a.m. and recognized that a quorum was present.

Member's Present:

M. Dean Buffington
Thomas F. Kealey
Senator Brad J. Little
Representative William W. Deal
William D. Mitchell
R. John Taylor
Parker G. Woodall (via Telephone)

Staff Present:

Connie M. Eshelman
Andrew M. Potter

Members Absent:

Gavin M. Gee

Guests:

Robert Maynard, Richelle Sugiyama,
Joanne Ax & Judy Shock from PERSI
Julie Weaver, Attorney General's Office
Doug Bates, Clearwater Advisors
Brian Hayes, RBC Dain Rauscher
Brian Benjamin, Attorney General's Office (for item no. 9 below).

Chairman Buffington thanked Mr. Maynard and Ms. Sugiyama for their assistance in the past weeks. Mr. Maynard introduced PERSI's Management Assistant, Joanne Ax, who was attending to take minutes of the meeting. Ms. Sugiyama introduced PERSI employee Judy Shock who will, with the approval of the Board, serve part time as Administrative Assistant II. Mr. Maynard has talked with PERSI Executive Director Alan Winkle and Ms. Shock's supervisor, who are willing to approve her working part time for the EFIB during this period.

1. Minutes of the April 6, 2005 Special Meeting: Approved

A motion was made by Representative William Deal, second by R. John Taylor to approve the minutes from the Special Meeting of April 6, 2005. Brian Hayes noted that he had attended the meeting in person rather than via telephone as noted in the draft. With that correction, the motion carried unanimously.

Minutes of the April 27, 2005 Special Meeting: Approved

A motion was made by Parker Woodall, second by William D. Mitchell to approve the minutes from the Special Meeting of April 27, 2005. The motion carried unanimously.

2. **SIF Reports – Dain Rauscher**

Brian Hayes, RBC Dain Rauscher, discussed the compliance page of the State Insurance Fund Report. This page has been added to the board report to provide a one-page checklist which provides the objectives, guidelines, rebalancing and performance along with compliance and returns in these areas. The format of the Asset Allocation page of the report had also been slightly revised at the request of State Insurance Fund Director Jim Alcorn. Mr. Hayes said Mr. Alcorn is content with the performance of the new equity managers.

Total Fund performance for the quarter was reported as a negative 0.80% with the one-year-trailing return shown as 1.20%.

At the request of Chairman Buffington, Mr. Hayes explained the manager change from Oppenheimer to Chicago Equity Partners: they will reduce overlapping in the total Endowment portfolio and rebalance closer to policy. The Executive Committee interviewed both Iron Bridge and Chicago Equity Partners on April 27, 2005. Both funds were appropriate; Chicago Equity Partners was hired because of lower fees. Mr. Hayes further advised that John Pickett of RBC Dain Rauscher met with the State Insurance Fund Director Jim Alcorn and the SIF Board, which approved the decision.

3. **Judges**

Mr. Hayes reviewed the report on the Judges Retirement Fund beginning with the Compliance Checklist. It is the stated policy of the Judges Retirement Fund to obtain excess returns to increase the retiree's annuity. The Board expressed concern that liabilities are increasing for this fund. The Board recognized the need for clarification of this objective and asked if this report is provided to the Judges. Mr. Hayes said they receive a copy of this report and agreed to review this policy with the Judges.

4. **Endowment Fund Performance and Update – Dain Rauscher**

Mr. Hayes reviewed the report on this fund saying the compliance checklist shows that the objectives are being met. The allocation report dated March 31, 2005, will be realigned to reduce the amount of passive index management. Chairman Buffington asked Mr. Hayes to provide an explanation of these changes that will show where the funds from Artisan Partners, who were terminated on April 6, are being reallocated. Mr. Hayes provided the following table as a follow up to this request:

Investment Manager	Approximate Amount of Transfer	Approximate Market Value After Transfer	Asset Classification
<i>Northern Russell 1000 Value</i>	(\$35,792,393)	\$10,000,000	Domestic Large Value
LSV	\$28,792,393	\$60,786,394	Domestic Large Value
Cash Transfer	\$ 7,000,000	N/A	N/A
<i>Northern Russell 1000 Growth</i>	(\$38,591,787)	10,000,000	Domestic Large Growth
Sands Capital	\$38,591,787	\$38,591,787	Domestic Large Growth
INTECH	\$45,163,995	\$45,163,995	Domestic Large Growth
Mastrapasqua	\$0	\$49,517,549	Domestic Mid Growth
Artisan Partners	(\$45,163,995)	\$0	N/A

Mr. Hayes indicated that Clearwater Advisors has been contacted and is aware of the transition and will ensure the cash overlay program maintains proper exposures. Mr. Hayes said he has negotiated to have commissions reduced for the process. Senator Little asked for a report at the next Board meeting showing the effect of this transition relative to what else happens in the market during the transition, showing best execution. Mr. Hayes agreed to provide that analysis.

International Equity manager Marvin and Palmer remains on the watch list. Mr. Maynard said companies of their similar type are not doing well in this market environment. Currently EFIB has no EAFE index fund manager. Mr. Hayes will check to see whether I Shares offers an EAFE growth product.

Discussion on whether the Endowment Fund's positive return was due to the active managers and whether active managers are reducing or increasing the risk of the fund. Mr. Hayes said the low fund expenses compared to other financial institutions is a major reason and using active managers adds risk. There were questions raised about whether active managers are reducing or increasing the risk of the fund. Mr. Hayes said using active managers adds risk. Mr. Maynard added that active managers will invest in fewer securities than passive managers, so the risk is concentrated. The bottom line is whether the return outweighs the risk. There was discussion on the value of the active managers. In the future, a report on the active manager composite may be useful. Mr. Hayes agreed to provide an analysis of this in future reports.

Materials prepared for Board discussion for the meetings will not be posted to the EFIB website in advance of meetings. Requests for information under the Public Records Laws can be handled by the Administrative Assistant at the office. Plans for revising the site content are continuing.

A reminder checklist will be provided to Board members each year regarding public records and information that is not under that act.

5. **Capitol Permanent Fund Payout – Andrew Potter**

Mr. Potter told the Board that Mr. Rick Thompson had indicated that a FY '05 distribution may not be required. There was a question as to whether the funds could later be withdrawn or whether they would become part of the permanent pool if not distributed this year. After further discussion, the Board directed Deputy Attorney General Weaver to research the issue.

6. **Staff Reports – Andrew Potter & Connie Eshelman**

Mr. Potter reviewed the expense report.

Ms. Eshelman reviewed the New Money Received – Earnings Reserve and Commission Recapture reports.

The Board discussed the decline of the GM bond rating and how that fits with the manager prohibition of holding junk bonds. The policy for index managers gives broad flexibility for orderly transitions in cases such as this. Mr. Maynard said such policies are generally referred to as “fallen angel” policies. He asked for a copy of the EFIB policy for himself and Ms. Sugiyama.

7. **SB 1194 – Budget & Distribution. For Endowment Funds – Andrew Potter**

Mr. Potter provided an update on Senate Bill 1194. It provides General Fund appropriation to the Agricultural College Earnings Reserve Fund and the Charitable Institutions Earning

Reserve Fund. The distributions to the pooled endowments and the transfers of General Funds to the Earnings Reserve are part of a package of adjustments that, reallocate endowment and General Fund support to hold all beneficiaries harmless. (This approach was taken in response to the Endowment Fund Investment Board's action to cease distributions from the Ag College and Charitable Institutions Earnings Reserves until those funds can support distributions).

Answering a question from the Chair, Ms. Sugiyama said the report distributed at the Land Board meeting earlier that morning was the corrected version. Mr. Maynard said in his discussions with Ray Houston at the Legislative Services Office, he understood that budgets must be pulled together by August of 2005. If, in fact, there is a promise of an unsustainable distribution from EFIB, changes need to be made by then. Deputy Attorney General Weaver said there are constitutional issues in the pooling of real property assets and she does not believe they can be resolved by August. Mr. Maynard and his staff will work with Ms. Weaver, Ray Houston, Winston Wiggins, and Brad Foltman to graph out potential returns and how to resolve this issue for the long term. This urgent issue needs to be dealt with within the next six weeks and cannot wait for the hiring of the new MOI. Mr. Maynard will provide his findings to the Executive Committee and awaits their direction for a recommendation to the Land Board. Representative Deal said the Board wants to avoid the need for another special appropriations bill and must get the payouts appropriately adjusted and back in balance with earnings.

Other Business:

The Board directed Ms. Weaver to prepare draft legislation to give the Board authority to hire consultants and auditors outside of the Division of Purchasing. Because the next regular meeting of the Board is scheduled after the deadline for submission of legislation, the Executive Committee will review the draft so it can be submitted for the Governor's legislative package.

8. **Executive Session**

Idaho Code §67-2345 authorizes the Board to enter into executive session for the purpose of discussing possible legal actions § 67-2345(1) (f) or personnel issues §67-2345 (1) (b) or §67-2345 (1) (d) records that are exempt from disclosure. Any resulting action will take place when the Board resolves back into regular session. Those issues being before the Board, Mr. Taylor moved to enter Executive Session, second by Mr. Woodall, the roll call vote was as follows:

Senator Brad Little – Aye
William Mitchell – Aye
John Taylor – Aye
Parker Woodall – Aye
Chairman Dean Buffington – Aye
Thomas Kealey – Aye
Representative William Deal – Aye

The motion carried unanimously and the Board entered executive session at 12:20 p.m. Due to a previous engagement, Mr. Taylor left during the latter part of the executive session. At 1:25 p.m., Mr. Taylor moved and Mr. Kealey seconded to convene in regular session. The vote was unanimous.

Chairman Buffington appointed William Deal and Thomas Kealey to assist John Taylor who is Chairman of the Manager of Investment Search Committee.

Representative Deal moved to terminate Northern S&P 500 Fund and move the assets to an appropriate fund or I-shares. Mr. Mitchell seconded the motion which carried unanimously by members present.

Representative Deal moved to terminate the services of Rainier Investment Group and authorize the fund managers to move to an appropriate Lehman Aggregate Fund or I-shares. Mr. Woodall seconded the motion which carried unanimously by members present. RBC Dain will notify the Judges Retirement Fund.

9. **Approve Letter to PERSI Board**

Mr. Woodall asked what needs to be done to formalize the arrangement to have Mr. Maynard and staff assist EFIB during the manager search period. Senator Little recommended a letter be signed by both Chairman Buffington and by Governor Kempthorne as Chairman of the Land Board. The letter will request the PERSI Board to authorize CIO Robert Maynard and his staff to serve as the interim manager of investments for the Investment Board, upon recruitment of EFIB staff. A motion was made by Mr. Parker, second by Senator Little to prepare the letter for signature by Chairman Buffington and Governor Kempthorne. The motion passed unanimously.

The Board noted for the record that the search and implementation of hedge fund investment managers will be suspended for the present time. They also gave Mr. Maynard permission to have additional work done by the auditor and consultant if necessary. They confirmed that funds are available if needed.

The Board also authorized the hiring of Judy Shock if she is interested in the Administrative Assistant 2 position at EFIB.

10. **Next Meeting Date – August 18, 2005.**

The next regular meeting of the Board will be August 18, 2005 at the EFIB office.

11. **Adjournment**

There being no further business to come before the Board, by motion duly made by Representative Deal, seconded by Mr. Kealey, and unanimously approved by members present, the meeting adjourned at 1:38 p.m.